

FISCAL NOTE

Bill #: SB488

Title: Generally revise tax laws

Primary Sponsor: Dan Harrington

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004</u>	<u>FY 2005</u>
	<u>Difference</u>	<u>Difference</u>
Expenditures:		
General Fund	\$6,651,493	\$183,827
State Special Revenue - Accommodations Tax	\$67,137	\$70,183
Federal Special Revenue - Accommodations Tax	\$2,797	\$2,924
Other - Accommodations Tax	\$16,784	\$17,546
Other - Workers Compensation Fund	\$7,000,000	
Revenue:		
General Fund	\$93,598,007	\$83,080,114
State Special Revenue		
Historical Society - sites & signs	\$4,117	\$4,283
Universities - tourism research	\$10,293	\$10,707
DFWP - parks maintenance/ acquisition	\$26,761	\$27,838
DOC - statewide tourism promotion	\$277,905	\$289,089
Regional/local tourism promotion	\$92,635	\$96,363
DPHHS - veterans nursing home	\$393,214	\$361,554
Long Range Building Program	\$(582,524)	\$(593,959)
Noxious Weed Account	\$415,238	\$(32,704)
Junk Vehicle Account	\$276,825	\$(21,803)
Senior citizens/Disabled Transportation Acct	\$212,260	\$108,275
Veterans' Cemetery	\$10,699	\$(21,567)
University System - Collegiate Plates	\$14,322	\$(4,749)
GVW Highway Account	\$(488,092)	\$(966,735)
Agency Accommodations Tax Reimbursements	\$67,137	\$70,183
Federal Special Revenue - Accommodations Tax	\$2,797	\$2,924
Other		
Agency Accommodations Tax Reimbursements	\$16,784	\$17,546
Highway Patrol Retirement Fund	\$498,366	\$355,725
Net Impact on General Fund Balance:	\$79,999,664	\$82,951,848

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|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact
<input type="checkbox"/> Included in the Executive Budget
<input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Technical Concerns
<input type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Needs to be included in HB 2 |
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Fiscal Note Request SB488, As Introduced

(continued)

Fiscal Analysis

ASSUMPTIONS:

Lodging Facility Use Tax

1. Beginning in fiscal 2004, this bill would increase the accommodations tax rate from 4% to 9%. Under current law, accommodations tax collections are projected to be \$13.005 million in fiscal 2004 and \$13.595 million in fiscal 2005. Collections under this bill would be 9/4 times collections under current law, or \$29,261,250 in fiscal 2004 and \$30,588,750 million in fiscal 2005.
2. Under current law, lodging facility use tax revenue is allocated as follows:
 - a. First, the Department of Revenue retains the amount appropriated for administering the tax.
 - b. Second, state agencies are reimbursed for tax paid on state employees' business trips.
 - c. Third, \$400,000 goes to the Montana heritage preservation and development account.
 - d. The remainder is allocated
 - i. 1% to the Montana Historical Society for roadside historical signs and historical sites,
 - ii. 2.5% to the university system for travel research,
 - iii. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance,
 - iv. 67.5% to the Department of Commerce for statewide tourism promotion, and
 - v. 22.5% to regional and local tourism promotion.
3. Under this bill, lodging facility use tax revenue is allocated as follows:
 - a. First, the Department of Revenue retains the amount appropriated for administering the tax.
 - b. Second, state agencies are reimbursed for tax paid on state employees' business trips.
 - c. Third, 55% of remaining revenue is allocated to the general fund.
 - d. \$400,000 goes to the Montana heritage preservation and development account.
 - e. The remainder is allocated
 - i. 1% to the Montana Historical Society for roadside historical signs and historical sites,
 - ii. 2.5% to the university system for travel research,
 - iii. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance,
 - iv. 67.5% to the Department of Commerce for statewide tourism promotion, and
 - v. 22.5% to regional and local tourism promotion.
4. Under this bill, state agency accommodations tax payments and reimbursements to state agencies from accommodations tax collections would be 9/4 times what they are projected to be under current law.
5. The following table shows accommodations tax revenue and its allocation under current law, under this bill, and the differences.

Accommodations Tax Revenue and Allocation						
	Current Law		SB353		Difference	
	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005
Revenue	\$ 13,005,000	\$ 13,595,000	\$ 29,261,250	\$ 30,588,750	\$ 16,256,250	\$ 16,993,750
DOR Administration Cost	137,254	141,371	137,254	141,371	-	-
State Agency Reimbursements						
General Fund	42,520	44,449	95,670	100,010	53,150	55,561
State Special Revenue Funds	53,709	56,146	120,846	126,329	67,137	70,183
Federal Special Revenue Funds	2,238	2,339	5,035	5,264	2,797	2,924
Other Funds	13,427	14,037	30,212	31,582	16,784	17,546
General Fund	-	-	15,704,670	16,419,257	15,704,670	16,419,257
Heritage Preservation	400,000	400,000	400,000	400,000	-	-
Historical Markers & Sites	123,559	129,367	127,676	133,649	4,117	4,283
Tourism Research	308,896	323,416	319,189	334,123	10,293	10,707
Parks Maintenance & Acquisition	803,130	840,883	829,892	868,721	26,761	27,838
Statewide Tourism Promotion	8,340,200	8,732,244	8,618,105	9,021,333	277,905	289,089
Regional & Local Promotion	2,780,067	2,910,748	2,872,702	3,007,111	92,635	96,363

Fiscal Note Request SB488, As Introduced

(continued)

Rental Vehicle Surcharge

6. Beginning in fiscal 2004, this bill would impose a 9% tax on gross revenue from short term rental of passenger vehicles, exclusive of charges for fuel and insurance. Rental vehicle owners would retain 5% of collections as an administrative allowance.
7. Taxable rental charges are projected at \$52.215 million in FY04 and \$53.834 million in FY05 (Dept. of Revenue estimate based on 1997 Economic Census). Rental tax collections are projected at \$4.464 million in FY04 (95% x 9% x \$52.215 million) and \$4.603 million in FY05 (95% x 9% x \$53.834 million).
8. All collections would be deposited in the general fund.

Cigarette Tax

9. The current law cigarette tax rate is 18¢ per pack; under this proposal, the cigarette tax rate is increased to 70¢ per pack beginning July 1, 2003.
10. Under current law, wholesalers are entitled to discounts on the purchases of tax insignia equal to 6% of the full face value of the insignia (tax) for the first 2,580 cartons purchased; 4% for the next 2,580 cartons purchased; and 3% for purchases in excess of 5,160 cartons. Under this bill these discount rates drop to 1.66%; 1.11%; and 0.83%; respectively. The changes to the discount rates provided for in this bill will maintain total discounts received by wholesalers at current law levels.
11. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the long-range building program account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
12. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 93.08% to the state general fund; 2.85% to the long-range building program account; and 4.07% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
13. The above changes generate net new revenue of \$28,048,294 in fiscal 2004 and \$27,040,371 in FY05 from the cigarette tax.
14. Revenue to the *state general fund* will *increase* by \$28,237,604 in fiscal 2004 and \$27,272,776 in FY05.
15. Revenue to the *long-range building program account* will *decrease* by \$(582,524) in FY04 and \$(593,959) in FY05.
16. Revenue to the Department of Public Health and Human Services for the operation and maintenance of state *veterans' nursing homes* will *increase* by \$393,214 in FY04 and \$361,554 in FY05.

Tobacco Products Tax

17. Under current law, tobacco products other than cigarettes are taxed at a rate of 12.5% of the wholesale price. Wholesalers are provided a discount equal to 5% of the taxes levied to defray the costs of collections and administration. Under this bill, the tax rate on tobacco products is increases to 25% of the wholesale value, and the discount rate is reduced to 2.5% of the taxes levied.
18. Under current law, and under this bill, all revenue from the tax on tobacco products is deposited in the state general fund.
19. The above changes to the tax rate and discount rate on tobacco products tax increases revenue to the state general fund by \$2,049,705 in fiscal 2004; and by \$2,083,527 in fiscal 2005.

Gross Receipts Tax (Retail Sales of More Than \$20 million)

20. This bill would impose a tax on the gross receipts from retail sales of establishments with gross receipts of at least \$20 million. The tax rate would be 1% on gross receipts between \$20 million and \$30 million, 1.5% on gross receipts in excess of \$30 million but not over \$40 million and 2% on gross receipts in excess of \$40 million. Gross receipts from sales for resale, sublease or subrent and from sales of motor vehicles, farm implements, construction equipment, coal, gas, oil, and electricity are exempt from the tax.
21. The tax would be paid annually, for sales during a calendar year, with payment for the preceding year due by January 31. The tax would apply beginning calendar year 2003.

Fiscal Note Request SB488, As Introduced

(continued)

22. In calendar year 2003, retailers' gross receipts of \$1.006 billion would be subject to the 1% tax rate, gross receipts of \$0.375 billion would be subject to the 1.5% tax rate, and gross receipts of \$0.644 billion would be subject to the 2% tax rate. In calendar year 2004, retailers gross receipts of \$1.037 billion would be subject to the 1% tax rate, gross receipts of \$0.386 billion would be subject to the 1.5% tax rate, and gross receipts of \$0.664 billion would be subject to the 2% tax rate. (Department of Revenue based on 1997 Economic Census)
23. Collections in fiscal 2004 for sales in calendar year 2003 would be \$28.569 million (1% x \$1.006 billion + 1.5% x \$0.375 billion + 2% x \$0.644 billion). Collections in fiscal 2005 for sales in calendar year 2004 would be \$29.454 million (1% x \$1.037 billion + 1.5% x \$0.386 billion + 2% x \$0.664 billion). All revenue from this tax would be deposited in the general fund.

Worker's Compensation Fund Transfer to General Fund

24. In fiscal 2004, this bill would transfer \$7 million from the workers' compensation fund for claims from accidents that occurred before July 1, 1990 (the old fund) to the general fund.

Permanent Registration of Light Vehicles Age 11 Years or Older

25. This bill provides for permanent registration of vehicles age 11 years old or older in the same manner as was done in SB435 of the current legislative session. (See SB435 fiscal note for a complete description of that bill and the fiscal impacts). Based on the fiscal note for SB435 this bill would have the following impacts on various state and local government funds:

	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
State General Fund	\$7,519,878	\$3,191,993
State Special Revenue Accounts		
- Noxious Weed Account	\$ 415,238	\$ (32,704)
- Junk Vehicle Account	\$ 276,825	\$ (21,803)
- Senior Citizens/Disabled Transp.	\$ 212,260	\$ 108,275
- Veteran's Cemetery	\$ 10,699	\$ (21,567)
- Collegiate Plates	\$ 14,322	\$ (4,749)
- GVW Account	\$ (488,092)	\$ (966,735)
Trust Fund – HP Retirement	\$ 498,366	\$ 335,725

(See long-term impacts section for the impacts of permanent registration in future fiscal years.)

Administration Impacts – Department of Revenue

26. The Department of Revenue would need a new data processing system to administer the new rental vehicle and gross receipts taxes. In fiscal 2004, the department would incur costs of \$6,458,689 to purchase and customize software. The department would spend \$42,837 on office equipment and computers for contract programmers. Beginning in fiscal 2005, the department would have ongoing costs of \$220,000 a year for software maintenance and storage on the state network.
27. The Department of Revenue would have costs of \$1,000 in fiscal 2004 for a mailing to cigarette wholesalers explaining the process for changing the tax rate.
28. The Department of Revenue would need an additional 1.5 FTE for compliance work for the new rental vehicle and gross receipts taxes. Personnel costs would be \$48,047 in fiscal 2004 and \$47,712 in fiscal 2005. Costs for office equipment and computers would be \$5,800 in fiscal 2004, and operating costs would be \$7,305 in fiscal 2004 and \$6,341 in fiscal 2005.

Administration Impacts – Department of Justice

29. Operating costs would decrease approximately \$145,787 in FY 2005 for postage (\$0.22 each), mail renewal notice cards (\$0.05 each), and decals (\$0.0852 each x 2 for each registration) no longer necessary due to the mandatory permanent registration of light motor vehicles adjusted by 2.6% for motor vehicles 11 years old or older that would be re-registered due to a change in ownership.

Fiscal Note Request SB488, As Introduced

(continued)

(340,180 permanent registrations x \$0.44 = \$149,679 – \$3,892 (\$149,679 x 2.6% recycled) = \$145,787)

30. Administrative costs will increase \$16,000 for programming and \$26,970 for computer processing time for a total of \$ 42,970 in FY 2004 to change the motor vehicle system programs to require light vehicles 11 years old or older to be permanently registered, change the fee code tables, add a new fee code for the county option tax that is deposited in the State general fund, establish a process to retain the current permanent registration structure for motorcycles, install an edit for those special plates that cannot be permanently registered, and revise the annual report provided to the Department of Revenue.

FISCAL IMPACT:**Department of Revenue**

FTE

FY 2004

Difference

1.50

FY 2005

Difference

1.50

Expenditures:

Personal Services	\$48,047	\$47,712
Operating Expenses	\$6,458,689	\$226,341
Equipment	\$48,637	\$0
Transfers – From State Fund to GF	\$7,000,000	
State Agency Accommodations Tax	<u>\$139,868</u>	<u>\$ 146,214</u>
Subtotal Department of Revenue	\$13,695,241	\$420,267

Department of Justice

Operating Expenses	\$42,970	(\$145,787)
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Funding of Expenditures:

General Fund (01)	\$6,651,493	\$183,827
State Special Revenue (02) (Accom Tax)	\$ 67,137	\$ 70,183
Federal Special Revenue (03) (Accom Tax)	\$ 2,797	\$ 2,924
Other		
- Accommodations Tax	\$ 16,784	\$ 17,546
- Workers Compensation Fund	<u>\$7,000,000</u>	
TOTAL	\$13,738,211	<u>\$274,480</u>

Revenues:

General Fund (01)	\$93,598,007	\$83,080,114
State Special Revenue (02)		
- State Agency Accom Tax Reimbursements	\$67,137	\$70,183
- Historical Society (roadside signs & sites)	\$4,117	\$4,283
- Universities - Tourism Research	\$10,293	\$10,707
- FWP - Parks Maintenance/Acquisition	\$26,761	\$27,838
- DOC - Tourism Promotion	\$277,905	\$289,089
- Regional/Local Tourism Promotion	\$92,635	\$96,363
- DPHHS - Veteran's Nursing Homes	\$393,214	\$361,554
- Long-Range Building Program	\$(582,524)	\$(593,959)
- Noxious Weed Account	\$415,238	\$(32,704)
- Junk Vehicle Account	\$276,825	\$(21,803)
- Senior Citizens/Disabled Transportation Account	\$212,260	\$108,275
- Veteran's Cemetery	\$10,699	\$(21,567)

Fiscal Note Request SB488, As Introduced

(continued)

- Collegiate Plates (U-System)	\$14,322	\$(4,749)
- GVW (Highway Account)	\$(488,092)	\$(966,735)
Federal Special Revenue (03)		
- State Agency Accom Tax Reimbursements	\$ 2,797	\$ 2,924
Other		
- State Agency Accom Tax Reimbursements	\$16,784	\$ 17,546
- Highway Patrol Retirement Fund	\$498,366	\$335,725

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$79,999,664	\$82,951,848
State Special Revenue (02)		
- State Agency Accom Tax Reimbursements	\$0	\$0
- Historical Society (roadside signs & sites)	\$4,117	\$4,283
- Universities - Tourism Research	\$10,293	\$10,707
- FWP - Parks Maintenance/Acquisition	\$26,761	\$27,838
- DOC - Tourism Promotion	\$277,905	\$289,089
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- Long-Range Building Program	\$(582,524)	\$(593,959)
- Noxious Weed Account	\$415,238	\$(32,704)
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- Veteran's Cemetery	\$10,699	\$(21,567)
- Collegiate Plates (U-System)	\$14,322	\$(4,749)
- GVW (Highway Account)	\$(488,092)	\$(966,735)
Federal Special Revenue (03)		
- State Agency Accom Tax Reimbursements	\$0	\$0
Other		
- Workers Compensation Fund	\$(7,000,000)	
- State Agency Accom Tax Reimbursements	\$0	\$ 0
- Highway Patrol Retirement Fund	\$498,366	\$335,725

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. 61-3-562, MCA, in section 4 directs the county treasurer to distribute the permanent registration fee and the local option vehicle tax as provided in 61-3-509 which states that the monies be remitted to the Department of Revenue who shall credit the payments to the state general fund. This bill would redirect approximately \$2 million annually in local option tax monies for vehicles that are permanently registered from the county general fund to the state general fund.

LONG-RANGE IMPACTS:**Department of Revenue**

1. It estimated that the net general fund impact under the permanent vehicle registration portion of this bill would be a loss of \$2.3 million in fiscal year 2006; and \$2.7 million in fiscal year 2007.
2. This bill would significantly decrease future annual revenues paid for registration of light motor vehicles.
3. Passage of this bill will result in substantial decreases in revenues that would be due on renewals for:
 - a. personalized plate renewal fees (\$10.00 for each renewal and deposited to the state general fund),

Fiscal Note Request SB488, As Introduced

(continued)

- b. special organizational fees (\$20.00 for each renewal) the collegiate donations that are used for scholarships and donations (as determined by the organizations) to approved organizations such as the Lewis and Clark Bicentennial and the Gallatin County Open Lands Board, and
 - c. the Veterans' Cemetery Account (\$10.00 for each renewal).
4. Revenue from the accommodations tax increase, cigarette and tobacco tax increases, rental vehicle tax, and gross receipts tax are expected to grow over time.

State Fund

5. Adverse development of Old Fund claims in future years may have adverse impact on General Fund.

Department of Justice

6. Passage of this bill will result in substantial decreases in revenues that would be due on renewals for:
- personalized plate renewal fees (\$10.00 for each renewal and deposited to the state general fund),
 - special organizational fees (\$20.00 for each renewal) the collegiate donations that are used for scholarships and donations (as determined by the organizations) to approved organizations such as the Lewis and Clark Bicentennial and the Gallatin County Open Lands Board, and
 - the Veterans' Cemetery Account (\$10.00 for each renewal).
- 7.

TECHNICAL NOTES:

Department of Revenue

1. Revenue from the gross receipts tax imposed by Section 18 would be about \$29 million a year. Section 20 makes allocations of \$67 million a year from gross receipts tax collections.
2. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA. Estimated costs were derived without the use of ITSD / CIO recommended project methodology.
3. Implementation of the rental vehicle and gross receipts taxes will require the department to implement a computer system to automate the administrative requirements of registration, return processing, customer and revenue accounting, and compliance activities. The expenditure will involve millions as shown by this estimate. Projects of this size are normally pursued through a Request For Proposal procedure outlined by the Department of Administration and can routinely take up to 6 months of careful planning and review before selecting a vendor or product that meets the department's requirements. The proposed effective and applicability dates in SB 488 do not appear to allow for the time required to proceed with the normal procurement processes defined in statute. Unless implementation of this act could be identified as an exception to those requirements, the effective date of the act may have to be amended to July 1, 2004 and applicable to retail sales occurring after June 30, 2004.

State Fund

4. Audited financial statements are only current through the end of FY02. Any excess funds for FY03 (available FY04) are only estimates at this time and actual amounts may be more or less than the \$7 million.
5. HB-363 is pending, that will impact the definition and availability of 'excess of adequate funding' of the Old Fund. Should HB-363 and SB-488 become law the Old Fund will be inadequately funded according to law. The General Fund is liable for any shortfalls in the Old Fund.

Department of Justice

6. It is unclear and appears that this bill would require IRP vehicles that are 11 years old or older to pay registration fees under the same structure as other Montana owned vehicles that are 11 years old or older.

Fiscal Note Request SB488, As Introduced

(continued)

Department of Commerce

7. The Title of SB 488 states in part:

“... PROVIDING THAT 5 PERCENT OF COLLECTIONS OF EITHER THE TAX OR THE SURCHARGE MAY BE KEPT BY THE FACILITY OWNER OR OPERATOR OR BY THE RENTAL VEHICLE OWNER OR OPERATOR AS AN ADMINISTRATIVE ALLOWANCE...”

The Title infers that there is to be a 5% collections allowance for the accommodations tax and the rental vehicle tax the bill proposes. However, SB 488 does not modify or add any substantive section of law authorizing the 5% accommodations tax collection allowance. Consideration should be given as to whether language in the Title is incorrect, or whether the body of the bill is incorrect.